Joint Economic Committee
WEEKLY ECONOMIC DIGEST

Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

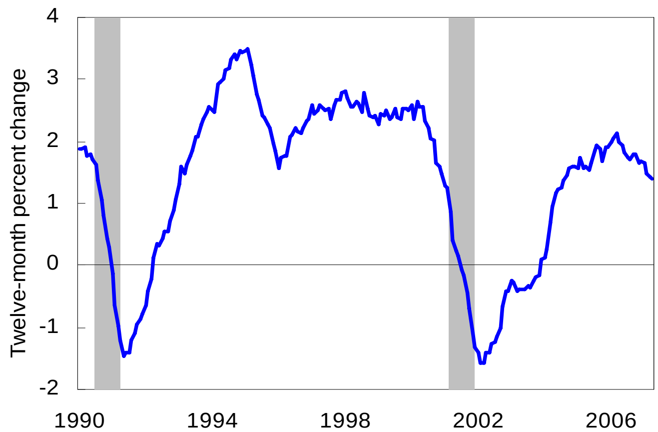
May 7, 2007

ECONOMIC NEWS

Job Growth Slowed in April

Payroll growth slowed in April. Total payroll employment at nonfarm establishments rose by 88,000 jobs last month, down from a 177,000 job increase in March. Factory payrolls dropped by 19,000 jobs in April, the tenth consecutive monthly decline. Overall payroll employment has grown 1.4 percent over the past year, well below the pace during the expansion of the 1990s (see chart).

Change in Nonfarm Payroll Employment



Source: Bureau of Labor Statistics, U.S. Department of Labor; and National Bureau of Economic Research.

The unemployment rate rose a notch last month. The civilian unemployment rate increased by 0.1 percentage point to 4.5 percent in April. The percentage of the population with a job dropped 0.3 percentage point to 63.0 percent, while the labor force participation rate (the percentage of the population working or looking for work) dropped by 0.2 percentage point to 66.0 percent. Both measures remain more than a full percentage point below their levels in March 2001 when the recession began.

Productivity growth slowed while compensation declined in the first quarter. Output per hour worked in nonfarm business increased at a 1.7 percent annual rate in the first quarter, following a 2.1 percent rise in the fourth quarter. Real (inflation-adjusted) hourly compensation (wages plus benefits) of workers in nonfarm businesses declined at a 1.5 percent rate in the first quarter. However, that first-quarter drop in the compensation rate follows a 10.8 percent rise in the fourth quarter that reflected a surge in bonuses and stock option exercises to highly-paid employees.

IN FOCUS

Where Recent Productivity Gains Have Not Gone

Paul Krugman once wrote: "Productivity isn't everything, but in the long run it is almost everything." Indeed, the most enduring effect of productivity growth on a nation's economy is to increase household earnings over time, which, in turn, enables consumers to enjoy rising standards of living.

After decades of only tepid growth, labor productivity began to accelerate in the mid-1990s. However, despite some acceleration of real compensation (wages plus salaries) in the late 1990s, compensation gains have lagged behind productivity growth since 2001. Additionally, what growth there has been in compensation has not been equally distributed across all categories of earners. Low-income earners, in particular, have yet to enjoy the benefits of higher productivity growth.

For most of the postwar period, productivity growth has been reflected in growth in labor compensation (see Snapshot). Whether during the high productivity growth period between 1948 and 1973, or the low-growth period be-

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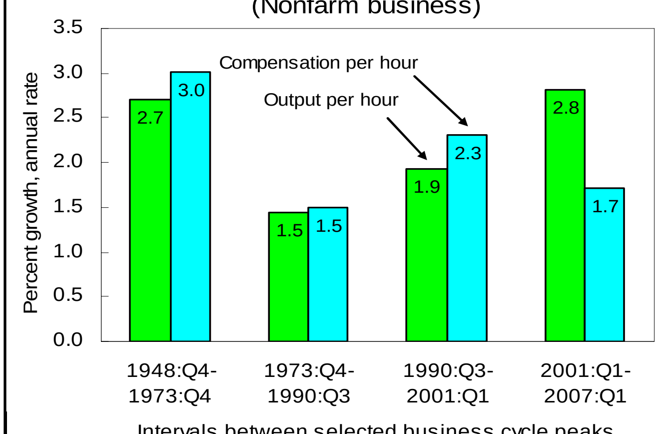
SNAPSHOT

Recent Productivity Gains Have Outpaced Gains in Compensation
(Nonfarm business)



Source: Bureau of Labor Statistics, U.S. Department of Labor, and National Bureau of Economic Research.

Note: Compensation per hour is adjusted for price inflation in nonfarm output.

THE WEEK AHEAD

DAY	UPCOMING NEW RELEASES
TUESDAY 8	Monthly Wholesale Trade: Sales and Inventories (March 2007)
WEDNESDAY 9	Federal Open Market Committee announcement on monetary policy
THURSDAY 10	U.S. Import and Export Price Indexes (April 2007); U.S. International Trade in Goods and Services (March 2007)
FRIDAY 11	Advance Monthly Sales for Retail and Food Services (April 2007); Producer Price Indexes (April 2007); Manufacturing and Trade Inventories and Sales (March 2007)

WEDNESDAY, MAY 9th: Markets expect the Federal Reserve will keep its target funds rate at 5¼ percent

ECONOMIC STATS AT A GLANCE

	MONTH			QUARTER			YEAR	
KEY INDICATORS	May	Apr	Mar	2007 Q1	2006 Q4	2006 Q3	2006	2005
Real GDP Growth (%)	—	—	—	1.3	2.5	2.0	3.3	3.2
Unemployment (% of labor force)	4.5	4.4	4.5	4.5	4.5	4.7	4.6	5.1
Labor Productivity Growth (%)	—	—	—	1.7	2.1	-0.5	1.6	2.1
Labor Compensation Growth (%)	—	—	—	3.2	3.6	3.6	3.1	3.3
CPI-U Inflation (%)	n.a.	7.4	4.9	3.8	-2.1	3.1	3.2	3.4
Core CPI-U Inflation (%)	n.a.	1.2	2.4	2.3	1.9	3.0	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private non-agricultural establishments. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics.

IN FOCUS (Continued)

tween 1973 and 1990, or the pickup in growth that began in the mid-1990s, the growth of productivity has been more or less matched by gains in compensation, after adjustment for inflation. Since 2001, however, productivity growth has picked up to a 2.8 percent annual pace, but real compensation growth has averaged only 1.7 percent a year.

Those relatively weak recent advances in compensation per hour are echoed in other, independently measured, indicators of compensation. The Employment Cost Index—a broader measure of compensation that is less sensitive to bonuses and stock option payments than is the official compensation measure for nonfarm business---has grown at an average annual rate of only 1.3 percent since 2001, following a 1.8 percent per year pace between 1990 and 2001.

Another indicator of trends in compensation, the usual weekly earnings of full-time wage and salary workers, shows that the earnings of typical workers have only barely kept up with increases in the cost of living since 2001 and that those of low-income earners have not kept up. Between the first quarters of 2001 and 2007, median earnings have grown at an annual rate of only 0.1 percent, after adjustment for increases in the Consumer Price Index (CPI). That compares with a 1.2 percent annual pace in median earnings between early 1996 and 2001. But lower-income workers have fared even worse, with workers at the bottom tenth percentile of the earnings distribution seeing their weekly earnings decline by 0.4 percent a year since 2001. In contrast, between 1996 and 2001, the earnings of such low-income workers rose by 1.6 percent a year.

Labor income has fallen as a share of national income over the past six years. The flip side of that decline in the labor share has been a rise of two full percentage points in capital income (mostly profits), from 22.7 percent of national income in 2001 to 24.7 percent last year. While wage growth has picked up a bit over the past year or so, that growth has not yet been sufficient to ensure that all of the nation's workers enjoy increased growth of their living standards in years to come.